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C O N F I D E N T I A L CARACAS 001459

SIPDIS

NSC FOR CBARTON  
ENERGY FOR DPUMPHREY AND ALOCKWOOD  
TOKYO FOR SFLATT

E.O. 12958: DECL: 05/09/2015

TAGS: [EPET](#) [VE](#)

SUBJECT: EXXONMOBIL SAYS PRESS REPORTS OF SETTLEMENT WITH  
THE GOV ARE UNTRUE

REF: CARACAS 805

Classified By: A/DCM Richard Sanders; for reasons 1.4 (b) and (d)

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SUMMARY  
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1. (C) ExxonMobil denies recent press reports that the company has reached a settlement with the GOV over the increase of the royalty payments levied on its Cerro Negro project. ExxonMobil de Venezuela President Mark Ward said its discussions with the GOV are "at a complete standstill" and that the senior management of his company will hold a review of ExxonMobil's program in Venezuela in early June. Ward also informed econoff that he anticipates the GOV will look for a way to force ExxonMobil to back out of its proposed multi-billion dollar petrochemical investment rather than to pull the plug itself.  
End Summary.

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BACKGROUND  
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2. (U) An energy industry trade publication, "Energy News Today," reported May 2 that ExxonMobil had completed its negotiations with the GOV over its unilateral decision to increase the royalty levied on the production of extra heavy oil. According to this report, ExxonMobil had agreed that its Cerro Negro project would pay the higher royalties, "while Venezuela will allow the U.S. oil giant to exploit Orinoco reserves longer than previously expected." That report was followed on May 9 by an article in Venezuela's "El Nacional" that asserts, "the most recent agreement of the Government to get a majority of shares without contributing a majority percentage was with ExxonMobil, in the Cerro Negro project.... Exxon agreed to pay a higher royalty, but insisted on being the project operator. It also asked for the extension of the contract, a kind of Cerro Negro 2. While the Government insisted on being the majority shareholder, it could not pay with cash but would pay with reserves."

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EXXONMOBIL SAYS IT AIN'T SO  
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3. (C) Econoff met with ExxonMobil de Venezuela President Mark Ward May 10 to discuss these reports. According to Ward, ExxonMobil has made no deals on the heavy oil royalties and its discussions with the GOV are "at a complete standstill." He added that the senior management of his company will hold a review of ExxonMobil's program in Venezuela in early June. Ward underlined that the company will notify the USG in advance of any action it may take. Ward also informed econoff that the company had contacted John Wright, the author of the "Energy News Today" piece, to rebut the story. When asked about his source, Wright said he had received the information from within PDVSA. Ward believes the GOV is trying to manipulate the company, perhaps hoping it will make some intemperate rebuttal that can be used against it.

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PETROCHEMICAL PROJECT STATUS  
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4. (C) Ward briefly touched on the status of ExxonMobil's proposed petrochemical project. (Note: Under significant pressure from the GOV, ExxonMobil signed the Preliminary Development Agreement for this project on August 12, 2004, immediately before the presidential referendum.) Ward said the technical work on the project is moving ahead well because most of it is being done in Houston. The negotiations on the project agreements are also moving ahead slowly, said Ward. He added, however, that the company is not being given access to key Venezuelan decisionmakers. A

bureaucratic mess within the GOV, said Ward, is being

compounded with a "political mess," i.e., the on-going conflict between Pequiven (formerly PDVSA's chemical affiliate that is now under the auspices of the Ministry of Basic Industries) and PDVSA Gas. To this must be added the GO's current disposition towards ExxonMobil. Ward anticipates that the GOV will look for a way to force ExxonMobil to back out of the project rather than to pull the plug itself. He would not comment in response to a question about whether the GOV would then seek to bring Petrobras or some other favored company into the project.

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COMMENT  
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15. (C) Referring to a recently published comment by ExxonMobil CEO Lee Raymond that one needed "to be patient with Venezuela," Ward said that the delay in company action had nothing to do with being patient. In the current environment, if ExxonMobil does seek to take the GOV to arbitration, it is likely to provoke GOV retaliation.  
McFarland

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